

NATIONAL COUNCIL OF LEGISLATORS FROM GAMING STATES
COMMITTEE ON LOTTERIES
SCOTTSDALE, ARIZONA
FRIDAY, JANUARY 4, 2008
MINUTES

The Committee on Lotteries of the National Council of Legislators from Gaming States (NCLGS) met at the Hotel Valley Ho in Scottsdale, Arizona, on Friday, January 4, 2008, at 9:00 a.m.

Senator Richard Lerblance from Oklahoma, Chair of the Committee, presided.

Other members of the Committee present were:

- Rep. James Buskey, AL
- Sen. Tom Harman, CA
- Rep. Kevin Ryan, CT
- Rep. Helene Keeley, DE
- Rep. Pamela Thornburg, DE
- Sen. Steven Geller, FL
- Rep. Christopher Sainato, PA

Other legislators present were:

- Rep. Sue Schmitz, AL
- Rep. H. Mac Gipson, AL
- Rep. Kevin Jeffries, CA
- Rep. Vincent Lofink, DE
- Rep. Bill Oberle, DE
- Sen. Pete Brungardt, KS
- Rep. Arlen Siegfried, KS
- Rep. Joni Jenkins, KY
- Rep. Darryl Owens, KY
- Rep. Ruth Ann Palumbo, KY
- Rep. Harold James, PA

Others present were:

- Susan Nolan, Nolan Associates, NCLGS Executive Director
- Nicholas Brozean, Nolan Associates, NCLGS Assistant Legislative Coordinator

MINUTES

The Committee voted unanimously to accept, as submitted, the minutes of its June 8, 2007, meeting in Las Vegas, Nevada.

LOTTERY INITIATIVES IN THE STATES

Ed Van Petten, president of the Multi-State Lottery Association (MUSL), said MUSL is a non-profit business organization, which owns and operates 31 lottery jurisdictions that sell at least

one of the organization's games, including lotteries from 29 states, the District of Columbia, and the U.S. Virgin Islands.

Mr. Van Petten said Powerball is MUSL's best-known and most popular lottery game. He said MUSL provides five games besides Powerball, including 2 by 2, Wildcard 2, Midwest Millions, Hot Lotto, and Cashola. He said MUSL runs lotto-style games, as well as instant scratch games, and a progressive video lottery game.

Mr. Van Petten said MUSL's profits continue to exceed its operating budget. He said that MUSL has generated its own funding since its third year running. He said profits allow the business to develop new games and brands and market them throughout the 31 jurisdictions.

Mr. Van Petten said the Powerball brand generates revenue and plans to continue to produce about two million dollars a year from slot machine manufacturer licensing.

Mr. Van Petten said the main goal of MUSL is to keep its games new and marketable. He said directors from its 31 lottery jurisdictions sit on its board of directors and make the business decisions for the organization's games.

Mr. Van Petten said Powerball is a jackpot driven-game, which is why sales decrease from year-to-year. He said Powerball's annual sales per capita demonstrate the actual game's performance, as sales per capita continue to increase because more states join the game and the game provides new features and options.

Mr. Van Petten said it is necessary to replace games in order to remain profitable.

In response to a question from Rep. Palumbo, Mr. Van Petten said MUSL prize reserve funds protect its lottery jurisdictions from unfunded prize payouts. He said the association receives most of its profits from interest that it obtains through investment of prize reserve funds.

In response to a question from Rep. Buskey, Mr. Van Petten said most of MUSL's profits go to the organization's operating expenses. He said profits also provide funding and research for new and existing games.

Ernie Passailaigue, president of the North American Association of State & Provincial Lotteries (NASPL) and director of the South Carolina Education Lottery, said NASPL consists of 42 lottery jurisdictions within the U.S., as well as lotteries in the District of Columbia, Canada, Mexico, and the Caribbean. He said the association works to educate existing lotteries and helps establish newer lotteries. He said NASPL's goal is to keep lawmakers up-to-date on new initiatives so they can enact appropriate policy.

EFFORTS TO EXPAND LOTTERY SALES, E.G., WAL-MART

Mr. Passailaigue said representatives of NASPL attend trade shows and provide presentations to prospective vendors to illustrate the benefits of selling lottery games. He said the goal is to demonstrate the ability of lottery games to enhance the bottom line for vendors and shareholders.

Mr. Passailaigue said NASPL created a Corporate Development Subcommittee, which comprises lottery employees, vendors, suppliers, and interested parties. He said the subcommittee is working to develop new methods of obtaining business within big box stores, such as Wal-Mart. He said efforts towards gaining bigger sales ventures saves individual lotteries time and money.

Mr. Passailaigue said a number of lotteries are working on a pilot program to develop a consistent and uniform reporting system across lottery jurisdictions. He said the program would make it possible for lotteries to work with multi-jurisdictional businesses efficiently. He said the program is the first step at obtaining joint-ventures with big box stores.

He said North Carolina, Oklahoma, South Carolina, Louisiana, and Texas are the first states trying to establish uniform accounting standards.

In response to a question from Rep. Gipson, Mr. Passailaigue said the cost of lottery tickets is states' rights. He said South Carolina rules and regulations do not permit lottery tickets over ten dollars. He said high-priced tickets give players more options and appeal to a different group of players.

Mr. Passailaigue said \$50 tickets might appeal to more affluent lottery players who are able to afford high-priced games. He said one and two dollar games still exist for individuals with less income.

Reverend Tom Grey of the National Coalition Against Gambling Expansion (NCAGE) said all lottery games generally obtain more revenue from lower socio-economic neighborhoods and individuals that can least afford the games.

IMPACT OF FEDERAL INTERNET LEGISLATION

Mr. Passailaigue said NASPL supports Internet legislation that would allow lotteries to offer legal games within state borders, as it is a states' rights issue. He said NASPL plans to work with the federal government to ensure that legal lottery activity is able to operate efficiently. He said the organization fears new federal Internet legislation will cause over-blocking of commercial lottery transactions.

Mr. Passailaigue said NASPL supports federal legislation to stop offshore illegal Internet gambling that targets U.S. citizens. He said the association recently sent comments to the U.S. Treasury regarding the potential Internet gaming regulations.

STATE LOTTERY PRIVATIZATION EFFORTS

Mr. Passailaigue said lottery privatization is another states' rights issue. He said a number of states have taken privatization into account, but none were able to get a bill through the legislature last year. He said states will most likely be reconsidering privatization in 2008.

Mr. Passailaigue said the act of privatizing lotteries is Wall Street driven. He said when thinking about lottery privatization, policymakers will need to consider the loss of state oversight and motivation for corporate business decision-making. He said a lump sum payment to the state for a lottery will provide revenue instantly, but in the long run it forgoes consistent income flow.

Mr. Passailaigue said if a private company took over the lottery, a private entity will try to maximize revenues with aggressive sales tactics because the company needs to cover the cost it paid for the operation.

Mr. Passailaigue said California, which is considering lottery privatization, has also looking at issuing revenue bonds. He said revenue bonds will enable lotteries to obtain money immediately and pay back bonds with lottery dollars in the future.

Mr. Passailaigue said 2007 lottery sales went down ten percent from the previous year. He said factors contributing to decreasing lottery revenues include a regressing economy, competition from other forms of gaming, and the reduction of advertising expenses, prize payment percentages, and retailer sales contributions.

In response to a question from Sen. Harman, Mr. Passailaigue said the California lottery might be underachieving because of legislative constraints.

He said legislators might first want to modify existing statutes limiting state-owned lotteries from maximizing profits before considering privatization.

In response to a question from Sen. Geller, Mr. Passailaigue said NASPL could partner with NCLGS to offer factual evidence on lottery privatization, which could aid states considering a proposal on the topic and the development of a NCLGS position.

Rev. Grey said NCAGE will also work with NCLGS on developing a position for lottery privatization.

Sen. Geller recommended that NCLGS hold a hearing at its next meeting on lottery privatization, with the intent of developing a position on the efforts within the following year. The committee voted unanimously to hear testimony on the issue at the NCLGS Summer Meeting.

ADJOURNMENT

There being no further business, the meeting adjourned at 10:00 a.m.

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